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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 001803

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STATE FOR EAP/RSP/TC, STATE PASS USTR FOR DEPUTY USTR
BHATIA FROM DIRECTOR YOUNG

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SUBJECT: TAIWAN TIFA TALKS ON DOHA AND GPA -- AM, MAY 25, 2006

REF: TAIPEI 1727

Classified By: AIT Deputy Director David Keegan, Reason 1.4 b

Summary:

¶1. (C) During the first morning of the fifth U.S.-Taiwan Trade and Investment Framework Agreement (TIFA) joint council meeting in Taipei May 25-26, Deputy U.S. Trade Representative (DUSTR) Ambassador Karan Bhatia communicated the USG's desire to strengthen the bilateral economic relationship within the framework of the TIFA. In response to Taiwan's inquiries about a potential FTA, he explained that 1) the expiration of U.S. trade promotion authority effectively precluded an FTA in the next year, and 2) much positive work could be done to strengthen the economic relationship even without an FTA. Ambassador Bhatia also emphasized the U.S. commitment to successfully concluding the Doha round of trade negotiations by year end and the need for Taiwan's support in achieving that outcome. He also emphasized the need for a flexible approach by Taiwan to its accession to the World Trade Organization (WTO) government procurement agreement (GPA). AUSTR Tim Stratford commented on Taiwan's regional role and said that removing trade barriers between Taiwan and China would boost Taiwan's role as a regional operating center for both U.S. and Taiwan companies.

¶2. (C) Ministry of Economic Affairs (MOEA) Deputy Minister Steve Chen (Ruey-long) confirmed Taiwan's support for a successful completion of the Doha round, but he expressed doubts the round could be completed by year end. After noting Taiwan's increasing economic dependence on China, Chen said that Taiwan's most serious concern is regional economic integration, including free trade agreements (FTAs) that exclude Taiwan. Chen said that a U.S. FTA with South Korea, a keen economic competitor of Taiwan, would put Taiwan companies under pressure, and proposed that the United States consider a U.S.-Taiwan FTA to restore the competitive balance. End summary.

¶3. (C) On May 25, the U.S. delegation led by DUSTR Bhatia and the AIT Director began TIFA talks with sessions on the Doha negotiations and the WTO GPA. Minister Deputy Minister Steve Chen chaired the talks for the Taiwan side. The U.S. delegation also included Bob DeHaan, Tim Stratford, and other USTR, USDA, USPTO, and AIT officials.

TIFA Session 1: Doha and Asia-Pacific Economics

¶4. (C) Deputy USTR Karan Bhatia emphasized the U.S. commitment to successful completion of the Doha round of trade negotiations. Ambassador Bhatia said that agricultural

market access remains the biggest challenge in reaching an accord, and he also said that a compromise agreement or "Doha light" would be unacceptable to the United States. After praising Taiwan's position on NAMA (non-agricultural market access) negotiations, Ambassador Bhatia asked for Taiwan's assistance in encouraging other WTO members to put forward final offers to reach an agricultural agreement. Ambassador Bhatia invited the Taiwan authorities to engage in bilateral talks with the United States on agricultural trade during the APEC meeting in Vietnam next week.

¶15. (C) Deputy MOEA Minister Chen confirmed Taiwan's support for a successful completion of the Doha round, but he expressed doubt the round could be completed by year end. He noted Taiwan's support of the Swiss formula on tariff reduction and its support of two coefficients (10 and 15) as an example of how Taiwan's interests are aligned with those of the United States. On agricultural market access, Chen defended Taiwan's membership in the G-10 by saying Taiwan needed to show its farmers that the authorities still support rural interests. Chen argued that Taiwan's conservative position on agriculture does not create an obstacle in the negotiations, and he emphasized that in the end Taiwan and the G-10 will not block consensus. Chen also said that Taiwan will actively urge other WTO members to support U.S. positions on Doha issues during the upcoming APEC meeting.

Asia-Pacific Economic Development and Future Cooperation

¶16. (C) Chen noted two regional trends that greatly concerned Taiwan: 1) Taiwan's deep and extensive economic dependence on China and 2) regional integration, including bilateral free trade agreements that exclude Taiwan. Chen said that

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economic dependence on China was worrisome because Taiwan is struggling to find new industries to replace those that have migrated to China. China's is fast catching up to Taiwan's level of technological sophistication in those industries that remain in Taiwan, such as semiconductors. Chen said that the Taiwan authorities are also trying to enhance Taiwan's competitiveness by enhancing its role in the global supply chain. Chen specifically said that a U.S. FTA with South Korea, a keen economic competitor of Taiwan, would put Taiwan companies under "unfair" pressure, and he proposed that the United States consider a U.S.-Taiwan FTA to restore the competitive balance. The Taiwan side also 1) praised U.S. efforts in APEC to ensure high standards for FTAs/RTAs; and 2) urged the United States to consider an FTA for the Asia Pacific (FTAAP).

¶17. (C) Ambassador Bhatia said the United States will continue to be actively involved in the region and cited the development of the U.S.-India economic relationship as a good model for continued U.S. engagement with Taiwan. Under the U.S.-India Trade Policy Forum framework, the two countries address trade issues sector by sector with a goal to reducing both tariff and non-tariff barriers. While not taking an FTA off the table as a potential goal, Ambassador Bhatia said much could be accomplished within the existing U.S.-Taiwan TIFA framework. With respect to the FTAAP, Ambassador Bhatia noted an upcoming APEC report on the idea, but he expressed concern that an endorsement of such a wide FTA could undercut progress in the Doha round. Ambassador Bhatia concluded that real trade progress will take place under the WTO where competitors such as Taiwan and Korea can benefit equally.

¶18. (C) AUSTR Tim Stratford said that in order for Taiwan to remain competitive with China, Taiwan must reduce its disadvantages as well as enhancing its role in the global supply chain. Stratford noted China is at the center of regional trade flows, and American companies complain that restrictions on Taiwan-China trade impede their ability to integrate their Taiwan operations with those in the rest of Asia. By removing trade barriers between Taiwan and China,

Stratford said, Taiwan would boost its role as a regional operating center for both U.S. and Taiwan companies.

TIFA: Session 2: GPA

¶9. (C) During the session on Taiwan's efforts to accede to the WTO government procurement agreement (GPA) Ambassador Bhatia stated the United States strongly supports Taiwan's efforts to accede to the WTO GPA. The DUSTR mentioned that the U.S. will propose a measure to address the nomenclature issue at the WTO GPA committee meeting on June 2. If successful, Taiwan's WTO GPA application could be considered during the week of July 10. The DUSTR stated the U.S. was considering asking China to not block this proposal, and other options were also being explored.

¶10. (C) Ambassador Bhatia said that if the measure could not be satisfactorily resolved at the WTO GPA meeting on June 2, he proposed that Taiwan consider one of two options: either to identify a Taiwan entity that can be listed to GPA, such as is done for some local government entities in other economies or to build upon the 2001 WTO understanding by working toward bilateral GPAs with the U.S. and the EU. Ambassador Bhatia added that the EU had responded favorably to this U.S. initiative.

¶11. (C) MOEA Deputy Minister Chen responded that Taiwan would support a bilateral GPA in the context of an FTA. He also proposed consideration of a trilateral agreement between the U.S., the EU and Taiwan.

¶12. (C) AIT Director Stephen Young remarked that the U.S. has aggressively and creatively supported Taiwan in many different venues such as WTO and WHO. He called on Taiwan to develop a more flexible approach to alternatives such as bilateral agreements.

YOUNG